

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



December 9, 2003

Agenda ID #3075
Ratesetting

TO: PARTIES OF RECORD IN RULEMAKING 02-06-001

This is the draft decision of Administrative Law Judge (ALJ) Carew. It will not appear on the Commission's agenda for at least 30 days after the date it is mailed. The Commission may act then, or it may postpone action until later.

When the Commission acts on the draft decision, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare its own decision. Only when the Commission acts does the decision become binding on the parties.

Parties to the proceeding may file comments on the draft decision as provided in Article 19 of the Commission's "Rules of Practice and Procedure." These rules are accessible on the Commission's website at <http://www.cpuc.ca.gov>. Pursuant to Rule 77.3 opening comments shall not exceed 15 pages. Finally, comments must be served separately on the ALJ and the assigned Commissioner, and for that purpose I suggest hand delivery, overnight mail, or other expeditious method of service.

/s/ ANGELA K. MINKIN

Angela K. Minkin, Chief
Administrative Law Judge

ANG:jva

Attachment

Decision **DRAFT DECISION OF ALJ CAREW (Mailed 12/9/2003)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on policies and practices for advanced metering, demand response, and dynamic pricing.

Rulemaking 02-06-001
(Filed June 6, 2002)

**OPINION APPROVING 2004 BUDGET REQUEST
FOR THE STATEWIDE PRICING PILOT FOR RESIDENTIAL
AND SMALL COMMERCIAL CUSTOMERS**

I. Summary

This decision approves the calendar year 2004 budget request of Southern California Edison Company, Pacific Gas and Electric Company, San Diego Gas & Electric Company (the "Joint Utilities") for the Statewide Pricing Pilot (SPP) for residential and small commercial customers, with the exception of requested decommissioning costs. The total additional amount authorized is \$7.2 million, subject to specified conditions. In addition, the decision requires the Joint Utilities to submit certain compliance filings in connection with their 2003 SPP-related expenditures and research activities.

II. Background

In Decision (D.) 03-03-036 the Commission approved the SPP, a pilot designed to test time-of-use and critical peak pricing tariffs for a representative sample of residential and small commercial customers on an opt-out basis. Slated to run through calendar year 2004, the SPP is testing the impact of such dynamic pricing tariffs on the usage patterns of a small sample of such customers

randomly selected statewide. The SPP is subject to ongoing evaluation and monitoring.

In approving the SPP, the Commission capped its budget at \$12 million for calendar year 2003, and provided a mechanism for considering and approving additional program costs that may be incurred in calendar year 2004, as well as any necessary adjustment to the cost cap. To that end, the Commission required Joint Utilities to submit a specific budget request on October 15, 2003, and also to include therein the calendar year 2004 costs of evaluating the SPP results.¹ Joint Utilities have now submitted their request.² On November 4, 2003, the Office of Ratepayer Advocates (ORA) filed timely comments in response to the budget request,³ and on November 17, 2003, Joint Utilities filed their response⁴ to ORA's comments. The pleading cycle is now closed and the matter is ready for decision.

¹ D.03-03-036, Ordering Paragraph 13.

² *Budget Request of the Joint Utilities Concerning 2004 Statewide Pricing Pilot for Residential and Small Commercial Customers*, filed October 15, 2003.

³ *Comments of the Office of Ratepayer Advocates in Response to the Budget Request of the Joint Utilities Concerning 2004 Statewide Pricing Pilot for Residential and Small Commercial Customers*, filed November 4, 2003.

⁴ The ALJ issued a ruling on November 7, 2003 allowing Joint Utilities to serve a reply to the ORA comments. The *Response of the Joint Utilities to the Comments of the Office of Ratepayer Advocates to Budget Request Concerning 2004 Statewide Pricing Pilot for Residential and Small Commercial Customers* was filed on November 17, 2003.

III. The Issue

The issue to be decided is whether Joint Utilities' request to spend an additional \$7.5 million related to the SPP in calendar year 2004 is reasonable and should be approved as submitted, or alternatively, whether the request should be approved in whole or in part, with appropriate safeguards and conditions.

IV. The Calendar Year 2004 Budget Request

Joint Utilities request an additional \$7.5 million for calendar year 2004 for the demand response activities authorized in D.03-03-036.⁵ These monies would be used to continue the SPP and conduct an evaluation of the program in 2004.

In deriving a figure for 2004 expenses, the Joint Utilities used a multi-step process. As a starting point, they identified total 2003 forecast expenditures and separated those expenditures associated with recurring activities from those associated with one-time activities. They included in the 2004 request only those costs that support: 1) recurring 2003 activities expected to continue in 2004 in support of ongoing SPP operations and maintenance activities and to ensure valid data collection, and 2) new anticipated 2004 activities. They projected the costs for the former to be \$5.1 million and the latter \$4.9 million, for a total of \$10 million. Joint Utilities then reduced this amount by \$2.5 million in unspent 2003 funds, making the total additional request \$7.5 million.

⁵ Joint Utilities' request does not include expenditures associated with Phase 2. The Joint Utilities will continue to record and track, in their previously established Advanced Metering and Demand Response Accounts, the administrative costs associated with Phase 2, to the extent consistent with the scope of Phase 2, as outlined in the *Assigned Commissioner's Ruling and Scoping Memo (Phase 2)* (Mimeo pp.5-6), issued November 24, 2003.

A. Recurring Activities (\$5.1 Million)

The \$5.1 million figure for recurring activities is comprised of costs covering two essential categories: 1) ongoing activities and 2) maintenance of an adequate SPP sample.

As to ongoing costs, Joint Utilities began by reviewing 2003 year-end expenditures to support SPP activities, a total figure of \$9.5 million. Since this amount includes both one-time expenditures and recurring expenditures, Joint Utilities removed the one-time expenditures⁶ and, as a result, project that ongoing costs (for such things as data collection program management and customer support/information systems notification) will total \$3.394 million⁷ in 2004.

The second major component of the \$5.1 million figure is \$1.746 million,⁸ an amount requested to maintain an adequate sample of pilot participants in 2004. This estimate assumes a 30% replenishment rate, which accounts for the need to replace opt-out participants, failed meters, and closed out accounts. It also assumes the need to make some modifications to enrollment and educational materials, based on 2003 experience in the field. Finally, the amount includes incentive payments to SPP control group participants for completing end-of-pilot surveys in 2004.

⁶ One-time SPP activities include initial meter purchase and installation, technology treatments, billing programming, customer research, pilot design and pilot analysis.

⁷ Exhibit A to the *Budget Request of the Joint Utilities Concerning 2004 Statewide Pricing Pilot for Residential and Small Commercial Customers*.

⁸ *Id.*

There is no dispute among the parties as to the reasonableness of the \$5.1 million figure for recurring activities. However, the Commission's Energy Division staff and the CEC staff ("interagency staff"), who are part of the interagency staff team supporting the decisionmaking process in this rulemaking, submitted a detailed data request to Joint Utilities in connection with the 2004 budget request. As a result, interagency staff recommend approval of the request, while cautioning that some features of the \$5.1 million budget component be carefully monitored in the working group context.

Specifically, interagency staff are concerned that the total customer enrollment/support/marketing budget, which is a part of the \$3.394 million ongoing cost figure, is projected to increase by \$200,000 in 2004, although it is unclear what is driving this increase. Accordingly, while authorizing the entire \$3.394 million, we will require the Joint Utilities to present their 2004 customer enrollment/support/marketing plan to Working Group (WG) 3 for discussion and possible modification, and then to file the final plan as a compliance report with the Commission.

In addition, interagency staff is concerned that the \$1.746 million requested to maintain an adequate SPP sample may not be needed if the utilities or the Commission decide to cut off replacements during 2004. This is a valid concern. Therefore, while authorizing the entire \$1.746 million, we will require that the Joint Utilities propose a formal strategy to close the SPP for discussion by WG 3. This review should include consideration of potential cost savings resulting from cutting the length of the SPP for some or all participants during or after the Summer of 2004 or deciding not to replenish program cells where current participating customers have chosen to opt out during the first six months of 2004. The potential for cost savings should be balanced against the

potential loss in either the quantity or quality of the results obtained from the SPP.

In sum, we will approve the \$5.1 million in recurring costs for calendar year 2004, subject to the two conditions outlined above.

B. Incremental Activities (\$4.9 Million)

The \$4.9 million figure for incremental activities is comprised of five items.⁹

1. Automated Demand Response System (ADRS) Pilot and Enabling Technologies (\$1.794 Million)

Joint Utilities plan to spend \$952,000 for implementation and evaluation of the ADRS pilot authorized in D. 03-03-036 and scheduled to begin in Spring 2004. This amount covers technology procurement, program deployment, operations and evaluation of the load impacts and cost effectiveness of the ADRS systems. They will also spend \$842,000 to install enabling technology (smart thermostat, pool pump, and electric heater controls) treatments for Track A of the SPP, as authorized in D. 03-03-036. That decision requires the utilities to offer these technologies to pilot participants selected for the CPP-V rate. Therefore, we will approve each of these undisputed amounts, which together total \$1.794 million.

2. CPP-V Track A/Enhanced Website Information (\$1.036 Million)

The second item, \$1.036 million, is targeted to reinstate an enhanced CPP-V Track A treatment that was placed on hold early in the pilot, and to add

⁹ *Id.*, Exhibit B.

information research tracks in parallel with Track A to assess different types of information.

\$650,000 of the total amount is related to the CPP-V Track enhancement, and will include market research, meter and enabling technology installations, and customer enrollment and marketing/retention/evaluation activities. There is no real controversy over this amount, although ORA, which is supportive of redoubling WG 3's efforts to generate meaningful results for CPP-V Track A, urges caution in continuing to spend funds on this Track if recruitment continues to be a problem. We will approve this budget item as Joint Utilities request.

\$350,000 of the \$1.036 million amount will fund an Information Display Pilot to test the usefulness of providing customers with various types of energy information (or feedback) not currently provided by the utilities. This will potentially include both in-home pricing/usage displays that either replace or accommodate an enhanced web-based information treatment, possible diagnostic tools to identify the most effective behavioral changes for a particular customer, customer reactions to different types of information or feedback choices, and an assessment of the likelihood that residential customers will choose to use and pay for these additional feedback mechanisms to help manage their energy usage. The budget includes the costs for sample design, market research and incentives, information treatment deployments, installation, monitoring, and evaluation reporting.

ORA is concerned that the nature of the research to be undertaken in this pilot and its scope is undefined, and suggests that a more detailed proposal be developed in the WG 3 context for subsequent Commission approval.

Interagency staff underscore the value of such a pilot, pointing out that previous studies have shown that the ability to get simple and easy-to-understand information on the effects of actions taken in the previous month to reduce energy use is the key to achieving stable and persistent load reductions. However, interagency staff also recommend that Joint Utilities be required to draft and discuss their deployment and evaluation plans in the WG 3 context as a prelude to Commission approval of the Information Display Pilot.

In their response to ORA, Joint Utilities assert that they will work collaboratively with interested parties to ensure that this information pilot is included in a manner which supports and enhances the essential research goals of the SPP.

Given the acknowledged need to refine the details and scope of the Information Display Pilot with the active involvement of interested parties, we will condition our approval of the requested budget amount as ORA and interagency staff recommend.

In sum, we approve the entire \$1.036 million budget item, with the condition noted above.

3. San Francisco Co-op Track B (\$100,000)

The third item is \$100,000 for the San Francisco Co-op Track B component of the SPP for customizing information and survey activities in 2004. ORA recommends reducing this amount by half, on the ground that there is no need for incremental customer research or customized pilot design and analysis. Joint Utilities counter that the request is consistent with the Commission's intent in D.03-03-036. In that decision, we directed PG&E to work closely with San Francisco Co-op on program and evaluation design, so that the unique features of this particular community based program offering could be appropriately

evaluated. Consequently we will approve the \$100,000 request, which is a relatively modest amount for this unique project.

4. Additional Pilot Evaluation and Customer Research Activities (\$1.675 Million)

The fourth item is \$1.675 million for additional SPP evaluation and customer research activities. This amount consists of \$1.3 million to support specific activities discussed in the Joint Utilities' Statewide Pricing Pilot Evaluation Plan submitted on July 1, 2003 in compliance with D.03-03-036, and an additional \$425,000 for additional pilot evaluation and customer research activities that were not identified in the July 1 plan. The latter activities include additional data collection on factors related to non-participants and opt-out customers.

ORA argues that this request is excessive when gauged against earlier projections, and that it be reduced to \$700,000. Joint Utilities counter that the requested budget figure is reasonable and that their original projections assumed a one-year pilot duration, not the two-year program adopted in D.03-03-036. Joint Utilities note that they have been working closely with WG 3 on the issues raised in the Evaluation Plan, and will continue to do so.

We will approve the requested amount on the condition that, during the first quarter of 2004, Joint Utilities submit to the Energy Division (ED) a schedule and plan for implementing these additional research activities. ED will consult with the assigned Commissioner and ALJ prior to specifying which projects are approved and which are deferred pending the results of initial evaluation efforts.

5. Decommissioning of Systems (\$312,000)

The fifth item is \$ 312,000 for the decommissioning costs associated with billing system modifications and other changes outs, which Joint Utilities anticipate will occur in 2005. ORA opposes these amounts as premature. In response, Joint Utilities accept ORA's suggestion that a specific budget allocation for post-SPP costs should wait until a more definitive policy is adopted.

We will remove this budget item from the broad authorization granted in today's order. However, the issue of post-SPP costs, as well as the issue of whether participating customers should remain on the experimental rates, or keep the meters installed until a final policy decision of broader customer applicability is made, should be analyzed through the WG 3 process.

6. Incremental Activities Budget Approval In Summary

Based on the above discussion, we will approve the budget request for incremental activities (except for the \$312,000 decommissioning expense request), subject to specified conditions. The total amount approved is \$4.6 million.

C. The Carryover Amount (\$2.5 Million)

The Joint Utilities anticipate that 2.5 million of the previously authorized \$12 million will not be spent in calendar year 2003, and request permission to carry forward that amount to 2004. \$2 million of this amount has already been allocated to the ADRS pilot and the additional enabling technology treatments in 2004. The remaining \$500,000 has been accounted for in the 2004 budget request. Therefore, we find the request to carry over the total unspent amount, \$2.5 million, reasonable, and we will grant it.

D. Total 2004 Authorization (\$7.2 Million)

In summary, for calendar year 2004 we authorize an additional \$7.2 million, based on our approval of the \$5.1 million for continuing operations and \$4.6 million for incremental activities, reduced by the \$2.5 million carryover from calendar year 2003. Consistent with our order adopting the 2003 budget and in order to allow for flexibility in managing the overall budget, we will not allocate the \$7.2 million to specific capital or O&M accounts.

V. 2003 Expenditures Report and Customer Research Reports

As noted earlier, Joint Utilities projected 2003 costs related to the SPP at \$9.5 million. These are costs associated with: 1) development of three different forms of experimental dynamic rates (time-of-use, and fixed and variable critical peak pricing) for residential and small commercial customers; 2) development of all marketing materials for these rates; 3) meter installations and recruitment of 2,435 customers for the SPP; 4) maintenance and operation of the SPP; 5) collection of electricity usage data for all SPP customers; and 6) data preparation and impact analysis of summer 2003 customer data.

In connection with their data request, interagency staff reviewed all major SPP project activities and costs for calendar year 2003, and recommend that the Joint Utilities file a final expenditures report detailing all 2003 expenditures and activities associated therewith. In addition, interagency staff recommend that the Joint Utilities file all completed 2003 SPP customer research reports with the Commission. In the interests of ongoing monitoring, our order requires the filing of these compliance documents in early 2004.

VI. Comments on Draft Decision

The Draft Decision of Administrative Law Judge Lynn T. Carew in this matter was mailed to the parties in accordance with Section 311(g)(1) of the

Public Utilities Code and Rule 77.7 of the Commission's Rules of Practice and Procedure. Comments were filed on _____, and replies were filed on _____.

VII. Assignment of Proceeding

Michael R. Peevey is the Assigned Commissioner and Lynn T. Carew is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. In compliance with Ordering Paragraph 13 of D.03-03-036, Joint Utilities have submitted a budget request for an additional \$7.5 million to cover program and evaluation costs that may be incurred in calendar year 2004 in connection with the SPP.

2. The overall process used by Joint Utilities to identify only those SPP-related costs that support recurring 2003 activities expected to continue in 2004, and new anticipated 2004 activities, is reasonable; the former request is \$5.1 million, and the latter is \$4.9 million, for a total 2004 projection of \$10 million.

3. Joint Utilities' request to carry over to 2004 the amount of \$2.5million in unspent 2003 funds is reasonable because the bulk of this amount has already been allocated to a previously approved pilot which will commence in 2004, or is otherwise accounted for in the 2004 budget request. The \$2.5 million carryover reduces Joint Utilities' total additional request from \$10 million to \$7.5 million.

4. The \$5.1 million figure for recurring activities (comprised of ongoing costs and an amount estimated as necessary to maintain an adequate sample of pilot participants) is uncontested, but careful review of these activities and monitoring of their costs is necessary and prudent.

5. The \$4.9 million figure for incremental activities is comprised of five items: \$1.794 million related to the ADRS pilot and enabling technologies related to

Track A of the SPP; \$1.036 million related to enhancement of the CPP-V track and addition of an Information Display Pilot; \$100,000 in connection with the San Francisco Co-op Track B component of the SPP; \$1.675 million for additional pilot evaluation and research activities; and \$312,000 for decommissioning costs related to the SPP.

6. The \$1.794 million requested for implementation and evaluation of the ADRS pilot and for installation of enabling technology for Track A of the SPP, as authorized in D.03-03-036 is undisputed, and reasonable.

7. The \$1.036 million requested to reinstate an enhanced CPP-V Track A treatment that was placed on hold early in the pilot, and to add information research tracks in parallel with Track A to assess different types of information (the so-called Information Display Pilot) is reasonable, but the value of the Information Display Pilot will be enhanced if its details and scope are refined with the active involvement of interested parties in the context of WG 3.

8. The \$100,000 requested for customizing information and survey activities in 2004 in connection with the San Francisco Co-op Track B component is a modest and necessary expenditure designed to capture the unique features of this particular community based program offering, consistent with the Commission's intent in D.03-03-036.

9. The \$1.675 million requested for additional SPP evaluation and customer research activities in 2004 is necessary to support specific activities discussed in the Joint Utilities' Statewide Pricing Pilot Evaluation Plan submitted in compliance with D.03-03-036 and additional data collection efforts focused on factors related to non-participants and opt-out customers; however, it is prudent to require the Joint Utilities to submit a schedule and plan for implementing these additional research activities so that they can be reviewed by ED.

10. While initially requesting \$312,000 in decommissioning costs associated with billing system modifications and other change outs anticipated in 2005, Joint Utilities now agree with ORA that a specific budget allocation for post-SPP costs should await adoption of a more definitive policy.

Conclusions of Law

1. Joint Utilities' request for \$5.1 million for recurring activities in 2004 related to the SPP should be approved, subject to certain conditions designed to ensure ongoing review of the activities and monitoring of their costs.

2. Joint Utilities' request for \$1.794 million for implementation and evaluation of the ADRS pilot and for installation of enabling technology for Track A of the SPP, as authorized in D.03-03-036, should be approved.

3. Joint Utilities' request for \$1.036 million to reinstate an enhanced CPP-V Track A treatment that was placed on hold early in the pilot, and to add information research tracks in parallel with Track A to assess different types of information (the so-called Information Display Pilot) should be approved subject to a condition designed to facilitate refinement of the Information Display Pilot with the participation of all interested parties.

4. Joint Utilities' request for \$100,000 to customize information and survey activities in 2004 in connection with the San Francisco Co-op Track B component should be approved.

5. Joint Utilities' request for \$1.675 million for additional SPP evaluation and customer research activities should be approved, subject to a condition allowing ED to carefully review the Joint Utilities' implementation schedule and plan.

6. Joint Utilities' request for \$312,000 for decommissioning costs should be removed from the overall 2004 budget; however the WG 3 participants should analyze the issue of post-SPP costs, as well as the issue of whether participating

customers should remain on the experimental rates (or keep the meters installed), until a final policy decision of broader customer applicability is made.

7. Joint Utilities' request to carry over to 2004 the amount of \$2.5million in unspent 2003 funds should be adopted, thereby reducing the additional amount to be approved by \$2.5 million.

8. Interagency staff has reviewed SPP project activities and costs for calendar year 2003, and recommends certain conditions designed to facilitate the Commission's overall understanding and ongoing monitoring of these expenditures; these recommendations should be adopted.

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company, Pacific Gas and Electric Company, San Diego Gas & Electric Company (the "Joint Utilities") request for \$5.1 million for recurring activities in 2004 related to the Statewide Pricing Pilot (SPP) is hereby approved, subject to the following conditions:

- a. Joint Utilities shall present their 2004 customer enrollment/support/marketing plan to Working Group (WG) 3 for discussion and possible modification, and shall thereafter file the final plan as a compliance report in this docket, or its successor.
- b. Joint Utilities shall propose a formal strategy to close the SPP for discussion by WG 3, considering such options as decommissioning some or all of the interval meters installed during the pilot as well as allowing some or all of the participating customers to retain their meters under their current or similar experimental rate forms; thereafter, no later than October 2004, Joint Utilities shall file their proposal in this docket, or its successor.

2. Joint Utilities' are authorized the following additional amounts, totaling \$4.6 million, for incremental activities in 2004 related to the SPP, subject to the following conditions:

- a. Approval of amounts associated with the Information Display Pilot is subject to the requirement that Joint Utilities draft and discuss their deployment and evaluation plans in the WG 3 process and thereafter submit an advice letter to the Energy Division (ED) seeking approval prior to commencement of the pilot. The comment period on the advice letter filing shall be limited to ten calendar days and reply comments to five calendar days.
- b. During the first quarter of 2004, Joint Utilities shall submit to ED a schedule and plan for implementing additional research activities. ED will consult with the assigned Commissioner and administrative law judge prior to specifying which projects are approved and which are deferred pending the results of initial evaluation efforts.

3. Joint Utilities' request to carry over to 2004 the amount of \$2.5 million in unspent 2003 funds is approved.

4. On or before February 27, 2004, Joint Utilities shall file a final expenditures report detailing all 2003 expenditures and the activities associated with those expenditures.

5. On or before February 2, 2004, Joint Utilities shall file as a compliance report in this docket all completed 2003 SPP customer research reports.

This order is effective today.

Dated _____, at San Francisco, California.